

A corporation whose membership is made up of individuals, partnerships, firms and corporations engaged in a particular industry was organized for the purposes, among others, of assisting in the making of trade agreements respecting employment of labor by its members generally; conducting collective bargaining with employees and labor groups for its members; promoting settlement of labor disputes and preventing strikes and lockouts. Its activities consist solely of negotiation of collective bargaining contracts, interpretation of such contracts, and adjustment of labor disputes. Held, such organization qualifies for exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 as a business league.

Revenue Ruling 56-65, c., B. 1956-1, 199, clarified.

Advice has been requested whether an organization is, under the circumstances set forth below, entitled to exemption from Federal income tax as a business league under the provisions of section 501(c)(6) of the Internal Revenue Code of 1954.

The organization is a nonprofit corporation without capital stock. Its membership is made up of individuals, partnerships, firms, and corporations engaged in a particular industry. Each of the foregoing entities is allowed one membership. The purposes of the organization are to conduct collective bargaining with employees and labor groups on behalf of its members generally; to promote the fulfillment of such bargaining agreements; to promote the settlement of labor disputes; to promote the prevention of strikes, lockouts, and industrial strife; to hold meetings of members for the interchange of views for their mutual benefit; promotion of their trades and industrial harmony and prevention of labor disputes; to conduct investigations toward the promotion of industrial harmony for settlement of labor disputes; and to promote a spirit of cooperation among members and between members and labor groups and employees. The organization's only activities consist of negotiation of written collective bargaining labor contracts, the interpretation of such contracts, and the adjustment of labor disputes on an industrywide basis. Interpretation of contracts and adjustments of labor disputes are incidental to its primary activity of negotiating collective bargaining agreements. Membership dues constitutes its only source of income and its funds are expended for salaries, supplies, and other administrative expenses.

Section 501(c)(6) of the Code exempts from Federal income tax 'Business leagues, chambers of commerce, real-estate boards, or boards of trade, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual.'

Section 1.501(c)(6)-1 of the Income Tax Regulations provides,

in part, that a business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services, for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.

A business group may organize for the purpose of serving a common interest without disqualifying itself for Federal income tax exemption purposes. The individual benefits received from the business league functioning in the 'labor relations' area may generally be considered incidental to the common purpose of furthering common business interests. Thus, negotiating contracts for the general membership, mediating or settling jurisdictional and other disputes, and furnishing general information are to be considered incidental activities since they further the common purpose with respect to the common labor problems of the business group and do not represent services to individual members which they could purchase elsewhere.

Where such services do not further the common interests and individual members derive a direct and non-incidental benefit from the services rendered, the organization would not qualify for exemption. For example, if the so-called business league organization essentially performed the functions of a labor or personnel department of a company, then the organization would be permitting benefits to inure to its membership. Similarly, if the services performed were to a substantial extent those of a kind which ordinarily constituted a business for profit such as serving as arbitrators in arbitration proceedings or prosecuting court or arbitration proceedings the organization may not qualify for exemption if such features can be deemed to transcend the fulfillment of the common purposes of the group.

In the instant case the organization serves the common business interests of its members both in purpose and in operation. Accordingly, it is held that the organization is entitled to exemption from Federal income tax as a business league under the provisions of section 501(c)(6) of the Code.

This ruling is in accord with the decision in the case of Associated Industries of Cleveland v. Commissioner, 7 T.C. 1449 (1946), in which the Commissioner has acquiesced. C.B. 1947-1, 1.

The avowed labor purpose of that organization was to secure and perpetuate for employers and employees freedom of contract, and, in general, its purpose was to provide the means whereby the executive heads of the industries engaged in Cleveland and

vicinity may meet to discuss, for the benefit of all engaged in industry, the various problems of common interest, and to promote a better understanding concerning subjects of material interest, particularly those relating to labor, production, and finance. In actual operation the organization was an employers' association which primarily backed the 'open shop' principle. The organization participated in labor contract negotiations and in settling labor disputes; it advised its members with respect thereto and furnished general labor information. The organization was held exempt from Federal income tax as a business league under section 101(7) of the 1939 Code (corresponding to section 501(c)(6) of the 1954 Code).

In support of its conclusion that the organization was exempt, the Tax Court stated, in part, as follows:

'* * * (I)t is clear that the real business interest which petitioner's members have in common is the desire to establish what the members consider to be 'industrial peace and sound industrial relations in the community' by advancing and maintaining the 'open shop' principle in the industry. The members have endeavored to establish employment and labor conditions which are stable and desirable from their standpoint. They wanted a readily available labor market from which they could obtain skilled labor such terms and conditions as they considered most favorable to themselves. To develop and insure the labor conditions which they deemed desirable they banded together to form the petitioner association.'

Revenue Ruling 56-65, C.B. 1956-1, 199, is clarified to the extent it may imply that labor relations activities of the type described in this Ruling are not appropriate activities of a business league which is exempt under section 501(c)(6) of the Code.

An organization which considers itself within the scope of this Revenue Ruling should, in order to establish exemption under section 501(c)(6) of the Code, file an application on Form 1024, Exemption Application, with the District Director of Internal Revenue for the internal revenue district in which is located the principal place of business or principal office of the organization. See section 1.501(a)-1 of the Income Tax Regulations.